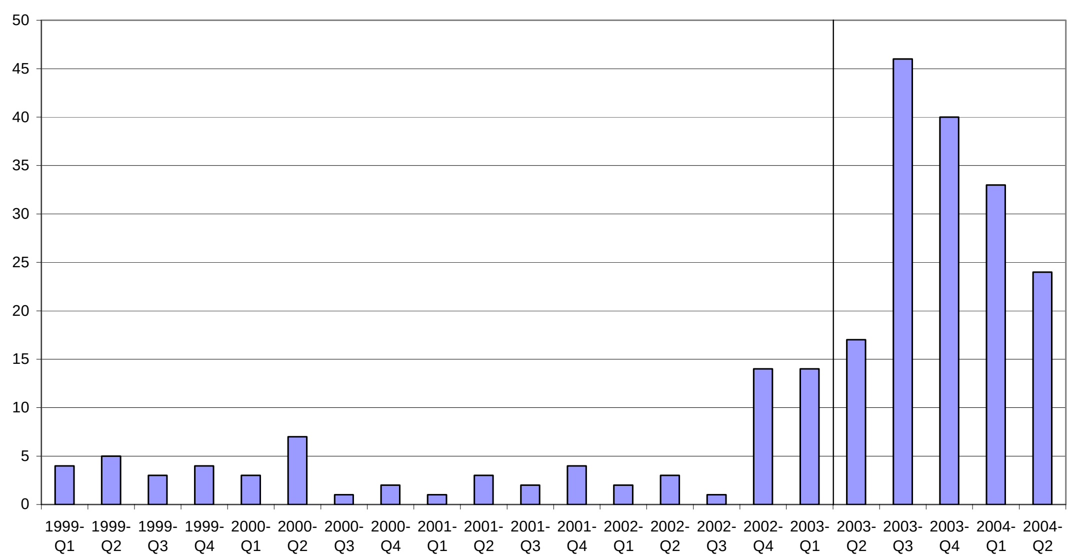
Committee on Ways and Means

Dividend Tax Cut Leads to "Unprecedented" Dividends Payments

Two years have passed since the enactment of the *Jobs and Growth Tax Relief Reconciliation Act of 2003*, which reduced the tax rate on dividend income to 15 percent, and 5 percent for tax payers in the lowest two tax brackets. Since then:

- ✓ Total dividend payments surged by nearly 20 percent since the beginning of 2003.
- ✓ The previously declining share of companies paying a dividend rose 25 percent.
- ✓ Personal dividend income has grown 12 percent since the tax cut was enacted, twice the rate preceding the cut.

Number of new dividend initiations, before and after the 2003 dividend tax cut



"The tax reform [of 2003] induced a large, widespread set of firms to initiate regular dividend payments or raise the payments they were already making… The sharp rise in regular dividend payments… is unprecedented in the record of publicly traded U.S. corporations in the last three decades, and offers perhaps the clearest evidence thus far in the literature that tax policy does matter for dividend payments by large corporations."

- Professors Raj Chetty (MIT) and Emanuel Saez (UC Berkeley)
"Dividend Taxes and Corporate Behavior: Evidence from the 2003 Dividend Tax Cut,"
October, 2004